

Message Text

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ACTION EB-06

INFO OCT-01 EUR-08 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-05

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 XMB-02

OPIC-03 AF-04 ARA-06 EA-06 NEA-06 /102 W

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P 231030Z OCT 74

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC PRIORITY 9871

C O N F I D E N T I A L SECTION 1 OF 2 COPENHAGEN 2973

FOR EB, ASSISTANT SECRETARY ENDERS

E.O. 11652: GDS

TAGS: ENRG, DA

SUBJ: DANISH PROPOSAL FOR INTERNATIONAL ENERGY GUARANTEE SCHEME

FOLLOWING IS LETTER WITH ENCLOSURE DATED OCTOBER 21
FROM UNDER SECRETARY JENS CHRISTENSEN TO ASSIST-
ANT SECRETARY ENDERS WHICH FONOFF HAS REQUESTED
WE TRANSMIT TELEGRAPHICALLY.

"NOW THAT WE ARE APPROACHING THE MOMENT WHEN THE
INTERNATIONAL ENERGY PROGRAM WILL BE PUT INTO
OPERATION, I THINK THAT IT IS OF GREAT IMPOR-
TANCE TO MAKE AN EFFORT TO CONCERNTRATE IMMEDI-
ATELY THE ATTENTION OF THE ORGANS OF THE NEW
AGENCY ON SUBSTANTIVE PROPOSALS WHICH BREAK
NEW GROUND IN OUR COOPERATION IN THE ENERGY FIELD.
IF WE DO NOT DO THIS, THERE IS A CONSIDERABLE
RISK THAT THE AGENCY WILL GET BOGGED DOWN IN
LENGTHY DISCUSSIONS ON PROCEDURE AND TECHNICALI-
TIES.

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"IT SEEMS TO ME THAT CHAPTER VII OF OUR AGREEMENT ON LONG TERM COOPERATION PROVIDES THE MOST PROMISING FIELD FOR A NEW COMPREHENSIVE APPROACH TO SOME ISSUES WHICH WILL BE OF VITAL IMPORTANCE TO OUR ECONOMIES OVER THE NEXT FEW YEARS. I AM THINKING ESPECIALLY IN TERMS OF A BALANCED, COMBINED APPROACH TO THE PROBLEMS OF ENERGY CONSERVATION AND ACCELERATED DEVELOPMENT OF ALTERNATIVE ENERGY RESOURCES. I HAVE NOTED THAT YOUR GOVERNMENT RECENTLY HAS GIVEN INDICATIONS OF ITS FIRM DETERMINATION TO MAKE PROGRESS ON THE CONSERVATION SIDE OF THE MATTER. I SHALL THEREFORE CONCENTRATE MY REMARKS ON THE OTHER SIDE OF THE PROBLEM, ACCELERATED DEVELOPMENT OF ALTERNATIVE RESOURCES, AS I FIND THAT PROGRESS IN THESE TWO FIELDS SHOULD NOT BE ATTEMPTED SEPARATELY, BUT THROUGH AN INTEGRATED APPROACH TO WHAT IS REALLY ONE BASIC ISSUE, THE REDUCTION OF OUR DEPENDENCE ON HIGH-COST IMPORTED OIL FOR MEETING OUR TOTAL ENERGY REQUIREMENTS.

"WHEN LOOKING AT THE REALITIES OF ACCELERATED DEVELOPMENT OF ALTERNATIVE RESOURCES, ONE CAN DISTINGUISH THREE MAIN PROBLEMS FOR ANY INVESTOR, BE IT A GOVERNMENTAL AGENCY OR A PRIVATE ENTERPRISE:

"FIRSTLY, THE INVESTOR WILL NEED SOME SORT OF SECURITY AGAINST THE RISK THAT A PARTICULAR INVESTMENT PROVES TO BE UNSUCCESSFUL AND DOES NOT YIELD A REASONABLE PROFIT, EVEN IF MARKET PRICES REMAIN AT A HIGH LEVEL.

"SECONDLY, ALL INVESTORS WILL NEED SOME SORT OF SECURITY AGAINST THE RISK THAT THE GENERAL LEVEL OF ENERGY PRICES DROP TO A LOW LEVEL WITH THE RESULT THAT EVEN SUCCESSFUL INVESTMENTS WILL SHOW A LOSS.

"THIRDLY, THE INVESTOR MUST HAVE ACCESS TO SUFFICIENT FINANCIAL RESOURCES AT ACCEPTABLE CONDITIONS.

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FICIENT FINANCIAL RESOURCES AT ACCEPTABLE CONDITIONS.

"I THINK WE SHOULD BE ABLE TO DEVELOP A SCHEME UNDER THE INTERNATIONAL ENERGY PROGRAM WHICH COULD MEET THESE THREE PROBLEMS IN A COHERENT FASHION. THE SCHEME SHOULD BE OPERATED BY AN INTERNATIONAL ENERGY GUARANTEE INSTITUTE TO

BE ESTABLISHED UNDER THE AUSPICES OF THE INTERNATIONAL ENERGY AGENCY.

"I INCLUDE A SHORT NOTE GIVING A FEW BASIC IDEAS FOR SUCH A SCHEME.

"I OFFER THESE PRILIMINARY THOUGHTS FOR YOUR CONSIDERATION, HOPING THAT THEY MAY BE OF SOME VALUE IN YOUR REFLECTIONS ON HOW OUR NEW AGENCY MAY BEST TACKLE THE JOB OF LAUNCHING BEFORE JULY 1, 1975, A CONSTRUCTIVE AND MEANINGFUL LONG TERM ENERGY COOPERATION AMONG THE PARTICIPATING COUNTRIES. IF WE SUCCEED IN ESTABLISHING AN EFFICIENT GUARANTEE SCHEME, I AM CONVINCED THAT THIS WILL NOT ONLY HAVE LONG TERM EFFECTS, BUT WILL ALSO HAVE BENEFICIAL SHORT TERM EFFECTS ON THE OUTPUT AND PRICE OF OIL IN THE PRODUCER COUNTRIES, WHICH WOULD CONTRIBUTE TO AN ALLEVIATION OF THE BALANCE OF PAYMENT BURDEN ON THE PARTICIPATING COUNTRIES.

"WITH MY VERY BEST WISHES, YOURS SINCERELY,
JENS CHRISTENSEN."

ENCLOSURE:

"OUTLINE OF AN INTERNATIONAL ENERGY GUARANTEE SCHEME."

"THE MAIN OBJECTIVE OF AN INTERNATIONAL ENERGY GUARANTEE SCHEME SHOULD BE TO PROMOTE THE ACCELERATED DEVELOPMENT OF ALTERNATIVE ENERGY RESOURCES WITHIN THE TERRITORIES OF THE PARTICIPATING COUNTRIES OF THE AGREEMENT ON THE INTERNATIONAL
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ENERGY PROGRAM.

"THE SCHEME SHOULD BE OPERATED BY AN INTERNATIONAL

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P 231030Z OCT 74

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 9872

C O N F I D E N T I A L FINAL SECTION OF 2 COPENHAGEN 2973

ENERGY GUARANTEE INSTITUTE SET UP UNDER THE AUS-
PICES OF THE INTERNATIONAL ENERGY AGENCY.

"THE ENTIRE OPERATION OF THE INSTITUTE SHOULD
BE UNDERWRITTEN BY A SIZEABLE GUARANTEE CAPITAL
PLEDGED BY THE GOVERNMENTS OF THE PARTICIPATING
COUNTRIES AT THE OUTSET.

"THE BASIC PRINCIPLE OF THE SCHEME WOULD BE
THAT POTENTIAL INVESTORS BE THEY GOVERNMENT
AGENCIES OR PRIVATE COMPANIES, WOULD PRESENT
INVESTMENT PROJECTS TO THE INSTITUTE FOR CON-
SIDERATION AND APPROVAL. APPROVED PROJECTS WOULD
OBTAIN STATUS AS CHARTERED PROJECTS UNDER THE
SCHEME AND THEREBY WOULD BECOME ELIGIBLE FOR
OBTAINING GUARANTEES AND POSSIBLE FINANCING
AS PROVIDED FOR IN THE SCHEME, INCLUDING

-GUARANTEE OF A MINIMUM PROFIT ON INDIVIDUAL
CHARTERED PROJECTS:

- GUARANTEE OF A CERTAIN PRICE FOR THE
MARKETING OF PRODUCTS FROM CHARTERED
PROJECTS:

- FINANCING OF THE INVESTMENT OF CHARTERED
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PROJECTS:

"1. THE GUARANTEE OF A MINIMUM PROFIT WOULD
BE BASED ON AN INSURANCE PRINCIPLE. THE GUARANTEE
WOULD BE EXPRESSED IN TERMS OF A FIXED PERCENTAGE
OF THE CAPITAL INVESTED. ANY PROJECT

WHICH AFTER THE INITIAL PERIOD WOULD IN A PARTICULAR YEAR SHOW LESS PROFIT THAN THAT GUARANTEED WOULD BE ENTITLED TO OBTAIN THE AMOUNT FROM THE INSTITUTE. A TOTAL LIMIT FOR THE OBTAINABLE GUARANTEE SUM SHOULD BE FIXED.

"EACH CHARTERED PROJECT WOULD PAY PREMIUM, THE AMOUNT OF WHICH WOULD BE AN INITIAL PERIOD BE DETERMINED IN RELATION TO THE CHARACTERISTICS OF THE PARTICULAR PROJECT, AND WHICH AFTER THE PROJECT HAS BEEN BROUGHT ON STREAM MIGHT TAKE THE FORM OF A ROYALTY ON THE ENERGY PRODUCED. THE OPERATION SHOULD BE IN PRINCIPLE BE AUTOFINANCED BY THE PREMIUM SYSTEM.

"THIS SYSTEM MIGHT NOT CONSTITUTE A FULL INVESTMENT GUARANTEE, BUT WOULD BE ANY EVENT PROVIDE THE INVESTORS WITH SOME DEGREE OF SECURITY FOR INDIVIDUAL PROJECTS.

"2. THE GUARANTEE OF A PRICE SHOULD BE AVAILABLE TO SUPPLY FROM CHARTERED PROJECTS, THE PRICE SHOULD BE ESTABLISHED AT A LEVEL PERMITTING NORMAL AMORTISATION OF INVESTMENT. THE PRICE LEVEL SHOULD BE CONSIDERED ANNUALLY IN THE LIGHT OF DEVELOPMENTS IN PRODUCTIONS COSTS, INFLATION OR OTHER RELEVANT CRITERIA.

"THERE ARE, THEORETICALLY, TWO DIFFERENT WAYS OF PROVIDING THE PRICE GUARANTEE EITHER THROUGH A VARIABLE IMPORT LEVY SYSTEM OR THROUGH A DEFICIENCY PAYMENT SYSTEM.

"THE INTRODUCTION OF A LEVY SYSTEM WOULD HAVE THE ADVANTAGE OF NOT REQUIRING PUBLIC FUNDING. ON THE OTHER HAND, IT WOULD HAVE THE DISADVANTAGE OF TENDING TO MAINTAIN ENERGY PRICES AT

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A HIGH LEVEL. AS OFFERS FROM THIRD COUNTRY PRODUCERS WOULD TEND TO BE BASED ON THE GUARANTEED PRICE SO THAT NO LEVY WOULD BE IMPOSED.

"THE INTRODUCTION OF A DEFICIENCY PAYMENT SYSTEM WOULD REQUIRE PUBLIC FUNDING TO THE EXTENT THAT IT COULD NOT BE COVERED BY THE PREMIUM PAYMENTS ON CHARTERED PROJECTS. ON THE OTHER HAND IT WOULD NOT INTERFERE WITH THE MARKET MECHANISM AND WOULD LEAVE THE WAY OPEN FOR DOWNWARD PRICE TRENDS, WHICH WOULD BENEFIT THE BALANCE OF PAYMENTS SITUATION OF THE PARTICIPATING COUNTRIES.

"THE PAYMENT OF THE DEFICIENCY PAYMENT SHOULD

BE EFFECTUATED IF THE MARKET PRICE FALLS BELOW
THE GUARANTEED PRICE. THE LEVEL OF THE DEFICIENCY
PAYMENT SHOULD BE ESTABLISHED AS THE DIFFERENCE
BETWEEN THE GUARANTEED PRICE AND THE REPRESENTATIVE
OFFERS ON THE WORLD MARKET. IN ORDER TO ENSURE
MARKETING THE LEVEL OF DEFICIENCY PAYMENTS
SHOULD HOWEVER marginally EXCEED THIS DIFFERENCE
A MAXIMUM LIMIT OF THE AMOUNT OF THE
DEFICIENCY PAYMENT SHOULD BE FIXED.

"3. INVESTORS WHO OBTAIN GUARANTEES UNDER THE
SCHEME WOULD UNDOUBTEDLY SEE THEIR OPPORTUNITIES
FOR FINANCING INVESTMENTS ENHANCED. HOWEVER
IT MIGHT TURN OUT THAT IN CERTAIN PERIODS
OR IN CERTAIN PARTICIPATING COUNTRIES FINANCING
WOULD STILL PRESENT A PROBLEM. IT WOULD THEREFORE
SEEM APPROPRIATE TO INCLUDE IN THE SCHEME
THE POSSIBILITY OF PROVIDING PRIVILEGED ACCESS
TO FINANCIAL RESOURCES FROM THE INSTITUTE FOR
CHARTERED PROJECTS. AS FOR LENDING OPERATIONS
SPECIAL TERMS SHOULD BE CONSIDERED BUT ARE NOT
INDISPENSABLE. AS FOR BORROWING OPERATIONS
RULES SHOULD BE DESIGNED FOR EMISSION OF LOANS
BY THE INSTITUTE. OTHER MEANS OF OBTAINING
FUNDS FOR LENDING MIGHT BE CONSIDERED:.
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